

# Progressing the Sustainability Agenda for Our Customers and Our Business

by AIB

**As Ireland's largest financial services provider, we have a responsibility to lead the way in the fight against climate change. In doing our part to help achieve this, we have put sustainability at the heart of our strategy at AIB.**

Every day we are working hard to support our customers in their transition to a low carbon future, with green lending options available to mortgage borrowers and personal customers, large corporates and SMEs. Our ambition is that green and transition lending should account for 70% of overall new lending by 2030 as we aim to play a significant role in helping the Government and European Union meet their carbon reduction targets.

AIB continue to embed Environmental, Social and Governance (ESG) considerations into our business processes.

For business customers we introduced an ESG questionnaire for borrowers in sectors more exposed to climate risk as well as launching the AIB Sustainable Lending Framework which outlines clear criteria by which we will report our green, transition and social lending.

We will take a look at both in more detail now.

## Environmental, Social and Governance (ESG)

AIB has taken significant steps in the development of our climate risk quantification capabilities to better understand the impact of physical & transition risk for our business and customers. The Group updated its policies for all sectors, requiring consideration of ESG factors in the credit process at origination. These new requirements were implemented through the development and rollout of a sectoral heatmap to identify the high climate risk sectors - both transition and physical risk (more on them below). By creating the heatmap this led to the creation of the ESG questionnaire to assess the ESG risk of customers in the high-risk sectors during the lending

process. This section summarises some of the risks we have identified by undertaking forward-looking climate scenario analysis for both physical risk and transition risk.

- Physical climate risks can be either acute or chronic. Acute risks include droughts, floods, extreme rainfall, and wildfires. Chronic risks involve longer term shifts in climate patterns, for example higher temperatures that may cause a rise in sea levels or chronic heat waves. AIB is focussing on flood risk as the most significant physical risk. In a review of the likely severity of the risks, from an Irish & UK perspective, flooding was identified as the most material risk for the Group. The first phase of the risk quantification work focusses on Irish residential property assets which are used as security for 48% of AIB Group's loan book.
- Transition risks arise from the transition to a low carbon economy and include policy, legal, technology, market, and reputational risks. Examples of transition risk include emissions caps, carbon taxes, changes in consumer behaviour and disruptive low carbon technologies. A climate risk heat-mapping exercise was completed to assess the most significant transition risk impacts across the sectors.

The high-risk sectors identified by AIB as the most prone to climate risk are:

- (i) Agriculture - Dairy & Cattle Farming,
- (ii) Manufacturing - Food Processing,
- (iii) Transport - Road, Rail & Water Transport; or Airlines, Aircrafts & Airports &
- (iv) Non-renewable energy - Electricity Production & Supply; or



Oil and Petrol-related. These sectors are estimated to account for 4.8% of AIB Group's loan book.

The new ESG questionnaire has been incorporated into credit applications for borrowers in high climate risk sectors where new lending is over €300k / £300k and was introduced to ensure a better understanding of the ESG risk associated with the borrower. The questionnaire incorporates both generic and sector specific questions to determine an ESG risk rating. The risk rating and assessment must then be considered as part of the credit assessment.

- For example, in the case of the Agri Sector, lenders might consider current levels of on-farm efficiency, the borrowers focus on farm sustainability or whether there are other available cash flows / revenue streams on-farm which could grow and potentially mitigate any ESG related risk over the term of loan proposed. The questionnaire was implemented for new applications in the second half of 2021 and early indications indicate a good awareness and understanding of the impact of ESG risk factors in their business.

There will be further embedding and refinement of these credit processes during 2022, and AIB will incorporate further ESG requirements into the risk policies and processes for the other Principal Risks impacted by climate threat.

### Sustainable Lending Framework

In 2021 AIB developed a Sustainable Lending Framework (SLF) to enable the classification of customer loans as green, transition and also social. The SLF is based on industry best practice and is largely aligned, where applicable, to the EU Taxonomy regulation. Within sectors such as agriculture, the EU Taxonomy does not provide specific criteria for classification of activities, and therefore, a combination of industry best practice and sector expertise was utilised in developing appropriate criteria for the framework.

The framework adopted an approach to split lending between Use of Proceeds, which is for a particular activity e.g. lending for an electric vehicle, a wind farm or a high energy efficiency building, and General Purpose, which is not tied

to a particular activity or purpose. The SLF contains clear criteria by sector for each of AIB's lending activities, to assess whether or not a loan can qualify as green or transition.

The same approach for use of proceeds and general-purpose lending is adopted for social lending, with key social areas classified within the framework. These include providing finance to healthcare, education, affordable and social housing and also financing for disadvantaged groups e.g. SMEs providing services to economically deprived communities.

The SLF was launched in 2021 initially within AIB Capital Markets and will be rolled out across AIB to capture all of our new lending.

### Looking Forward

In AIB's Sustainability Index (last undertaken in July 2021 and completed annually) 92% of the adults surveyed responded that they expect businesses should help them make more environmentally friendly choices and among Under 35 years 69% of them stated that the 'positive sustainability credentials' of a business impacts on their decision to buy products and

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services. This reinforces that there is an opportunity ahead for businesses and it is growing all the time.

AIB have a key role to play in helping to address the environmental issues where we operate. We do this through:

### 1. Backing Personal Customers

- Providing finance for energy efficient homes, through our Green Mortgage products;
- Providing finance for retrofitting less energy efficient homes through our Green Consumer Loan;
- Supporting customers to move away from transport options reliant on fossil fuels. In addition, in 2021 we launched our Green Living Hub, where we provide visitors with information on how they can reduce their negative impacts on the environment and increase their positive impacts, as well as profiling the products and services we provide to support them.

### 2. Backing Business Customers

We are continuously working to expand our sustainable finance products and services for our customers. While we have made significant progress, there are still opportunities for us to progress.

- AIB is very active and engaged with customers in the agri space and is a key partner in a number of industry initiatives aimed at supporting the transition of Irish farms like the Teagasc Grass10 multiyear initiative for farmers, and the Signpost programme which promotes 100 demonstrator farms and their sustainable farming practices.
- We are running Agri Clinics in select regional branches and featuring

agri sustainability articles in specific publications.

- Our Capital Markets segment will launch a Green Purpose Loan in 2022 which will provide funding to SME customers at competitive rates that can be offered to customers if the use of proceeds are for green or transition purposes. We are also considering a proposition specifically in relation to office retrofits.
- AIB has joined forces with Foresight Group, a UK-based sustainable infrastructure investment manager, to set up a €75 million fund to invest in equity in SMEs focused on accelerating Ireland's transition to a low-carbon economy. AIB is providing a cornerstone investment of €30 million to the fund, which will be managed by Foresight, and which aims to raise a total of €75 million. The AIB Foresight SME Impact Fund will typically provide equity investments of €2 million to €5 million but it will have the ability to make larger or smaller investments.
- In October 2021 we doubled our Climate Action Fund to €10bn, due to strong customer demand. The fund was originally launched in 2019 with a target of lending €1bn per annum for green lending over five years. AIB comfortably exceeded this annual target for two years with €2bn of Green Lending in 2021 which accounted for 19% of all new lending. In addition, during 2021, our Energy, Climate Action and Infrastructure lending continued to be both the fastest growing book and the best performing loan book in AIB, underlining that banking green can also deliver resilient sustainable returns.

### 3. Growing your Sustainability Knowledge

- Climate Finance Week Ireland (CFWI) is now in its sixth year and will be held from the 17th -21st of October 2022, and once again is proudly sponsored by AIB. CFWI has developed into the landmark sustainable finance event covering broader environmental, social and governance (ESG) topics in Ireland. In 2021, there were 41 events hosted, covering topics such as green finance, Net Zero, ESG disclosures and reporting, talent and innovation and the launch of Ireland's Sustainable Finance Roadmap.
- The AIB Sustainability Conference is an annual event and will take place on the 17th of October as part of CFWI where the bank hosts global and local leaders to share insights, learnings and best practice. In 2021 there were over 3,900 attendees, and the event covered how business can address the issue of climate action as part of a broader Sustainability approach. Speakers at the 2021 conference included James Cameron, Dr Gro Harlem Brundtland and Professor Scott Galloway.

We want to ensure a greener tomorrow by backing those who are building it today. By using ESG Questionnaires and the Sustainable Lending Framework to shape our lending practices and our customer initiatives these together can help play a role in reducing the amount of harmful greenhouse gas emissions released into the atmosphere. It is a good start, but we have a lot more to do and we will have more to come later this year on new initiatives.



#### AIB

*AIB Sustainability Conference; Join us virtually for our annual conversation around sustainability with global and local experts on October 17th 2022*

